Minutes No. 28

Southwest Power Pool

OVERSIGHT COMMITTEE MEETING

June 13, 2011

Marriott Las Colinas, Irving, Texas

• MINUTES •

Agenda Item 1 – Administrative Items

SPP Chair Josh Martin called the meeting to order at 8:10 a.m. The following members were in attendance: Josh Martin (Director), Julian Brix (Director) and Phyllis Bernard (Director). Staff in attendance included Stacy Duckett, Alan McQueen, Lauren Krigbaum, and Philip Propes. Others in attendance included Craig Roach, Stuart Rein and Vincent Musco (Boston Pacific), who joined the meeting via phone at 10:00 a.m.

Mr. Martin referred to draft minutes of the April 4, 2011 meeting and asked for corrections or a motion for approval (4/4/11 Minutes – Attachment 1). Julian Brix moved for approval; Phyllis Bernard seconded the motion. The motion passed unanimously.

Agenda Item 2 – Review of Past Action Items

Stacy Duckett referred to the Action Items Report (Action Items - Attachment 2). There are currently no pending items.

Agenda Item 3 – Update on Current Activities

Market Monitoring Unit

Alan McQueen provided an overview of the activities for the MMU during the last quarter (MMU Report – Attachment 3). Three new staff are joining the department during June. The presentation of the State of the Market Report has been delayed to later in June. The Committee had some discussions regarding the recent gaming issues in the Midwest ISO (MISO) and the California ISO (CAISO) markets. Phyllis Bernard requested consideration of engaging assistance with those who may have experience with markets to ensure anticipating issues. Mr. McQueen noted an operational/design issue that is being addressed regarding participation of intermittent resources in the market. A proposal will be provided to the Market Working Group (MWG). Market Monitoring is leading the Business Intelligence workstream within the Integrated Marketplace project.

Internal Audit

Lauren Krigbaum reviewed the activity report for Internal Audit (IA), including audits conducted during the quarter (IA Report – Attachment 4). Most of the staff’s time was devoted to SPP’s SSAE 16 audit. There has also been considerable time spent on Entergy’s monitoring by the ICT. There have been issues, but improvements are occurring. Ms. Bernard requested some clarification of the process related to oversight of the construction project. Josh Martin noted concern raised by some directors regarding the location of the building in relation to the roadway. Philip Propes noted the perimeter fencing, automated gates and ballards in place to enhance protection of the site. Lauren Krigbaum noted other annual audits, audits in process, and the audit schedules. Julian Brix asked for clarification regarding audit activities that do/do not include the Regional Entity (RE).

Compliance

Philip Propes reviewed the quarterly activities report for the Compliance group (Compliance Report – Attachment 5). Focus has been on member outreach to assist in the reduction of the number of violations in the region. The Compliance Support Site is under development now. The group is also focusing on developing common interpretations to assist entities in achieving compliance; examples include the MOD and TOP standards and addressing how current processes can meet the requirements. A Member Compliance Group is being formed to provide feedback to the RE on behalf of all registered entities. Meetings are planned quarterly. Compliance continues to receive positive feedback from document reviews provided to entities. The group is conducting a review of SPP Criteria at the request of the Markets and Operations Policy Committee (MOPC) to determine how the Criteria synchronize with Reliability Standards. Ms. Bernard noted concerns with the CAN process and whether it follows rule-making procedures. Ms. Duckett and Mr. Propes will follow-up and report at the next meeting.
Agenda Item 4 – Strategic Plans and Budgets

Alan McQueen reviewed highlights of the strategic plan and budget plans for the MMU. Plans include many process improvements/enhancements as well as Integrated Marketplace support. Mr. Martin suggested adding some focus on gaming.

Lauren Krigbaum provided highlights of the Internal Audit’s strategic plan. The most significant new initiative is working with Compliance on reviews of entities for the RE audit preparation. The group is also taking a significant role in the Integrated Marketplace, particularly with testing later in the project, and is building up a knowledge-base now. There will be a need to reduce IA work to focus on the Integrated Marketplace and/or engage consultants temporarily. Ms. Krigbaum will seek more input from the Committee as things progress.

Philip Propes presented an overview of the Compliance Department’s strategic plan. The focus continues on member outreach and support as well as support of SPP’s compliance. The goal is to broaden the engagement throughout the organization and beyond NERC compliance. Within the outreach program, an assessment is underway as to the number of on-site evidence reviews that can be conducted.

Agenda Item 5 – Annual State of the Market Report Wrap-Up

Craig Roach provided an update on Boston Pacific’s (BP) review of the State of the Market Report. Specifically, BP focused on the metrics included in the report. Mr. Roach complimented the Report as prepared by the MMU. He then reviewed comments on certain metrics for consideration in future reports.

Alan McQueen gave a high-level response to the BP report. The MMU will follow-up on these for a future report, as well as its own critique which is in process. Mr. McQueen also provided responses to questions raised at the April Board of Directors meeting. The MMU will review the report development process to determine how and when an earlier outline can be provided to the Committee for feedback. An update will be provided at the September meeting.

Agenda Item 6 – Integrated Marketplace Update

Craig Roach provided an update on BP’s assessment of the Integrated Marketplace initiative. There have been no significant design changes and the project is moving forward.

Agenda Item 7 – Market Monitoring/Annual Participant Reviews

Alan McQueen provided a presentation on MMU’s annual review process with market participants that have load and resources. Each year the MMU does individual reviews with these market participants to assess their participation as compared to others. These reviews provide additional support to participants, education to MMU staff and participants, and overall support to market efficiency. Mr. McQueen reviewed examples of the type of information that is shared with participants. Based on some of this data, the Committee asked Mr. McQueen to develop a report to note how the market has matured and benefited the region. The Committee also requested consideration of how this process can be expanded to other participants. Any assistance must be balanced against independence requirements for the MMU.

Agenda Item 8 – New Action Items

Stacy Duckett reviewed new Action Items:

1. Stacy Duckett: Affirm that the Standards of Conduct remains enforceable post employment.
2. Stacy Duckett: Have a discussion with management regarding available staffing to “challenge” market design.
3. Stacy Duckett/Philip Propes: Investigate the CAN process in regards to rule-making procedures.
4. Alan McQueen: Determine how to provide the Committee an outline of the 2011 State of the Market Report.
5. Alan McQueen: Develop a report a mechanism to reflect maturity of the market and positive impact to the region. Develop a plan to expand the market participant annual review process.

Philip Propes provided a briefing on the Consolidated Balancing Authority (CBA) initiative and the impact it may have on the NERC registration. The issue is with the CBA Steering Committee now, but will work its way up through the stakeholder process. Mr. Martin asked for a report at the next meeting.

**Agenda Item 9 – Future Meetings**

Josh Martin noted future meetings. The September meeting will now be held in Chicago; the March 2012 meeting is set for Washington, DC.

The meeting adjourned at 12:05 p.m.

Respectfully Submitted,

Stacy Duckett
Secretary
Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE MEETING
June 13, 2011
Marriott Las Colinas, Irving, Texas

•   A G E N D A   •

8:00 a.m. – 12:30 p.m. CDT

1. Call to Order/Administrative Items ................................................................. Josh Martin
2. Action Items Report ....................................................................................... Stacy Duckett
3. Update on Current Activities
   a. Market Monitoring Unit ................................................................. Alan McQueen
   b. Internal Audit .............................................................................. Lauren Krigbaum
   c. Internal Compliance ................................................................. Philip Propes
4. Strategic Plans and Budgets
   a. Market Monitoring Unit ................................................................. Alan McQueen
   b. Internal Audit .............................................................................. Lauren Krigbaum
   c. Internal Compliance ................................................................. Philip Propes
5. Annual State of the Market Report Wrap-Up
   a. Market Monitoring Unit ................................................................. Alan McQueen
   b. Boston Pacific ................................................................. Craig Roach
6. Integrated Marketplace Update ................................................................. Craig Roach
7. Market Monitoring/Annual Participant Reviews * ..................................... Alan McQueen
8. New Action Items .............................................................................. Stacy Duckett
9. Future Meetings ..................................................................................... Josh Martin

2011
   September 29  Washington DC
   December 12  Little Rock (day prior to BOD Workshop)

2012
   March 29  TBD
   June TBD  Little Rock
   September 27  TBD
   December 10  Dallas (day prior to BOD Workshop)

* Time Permitting
Minutes No. 27

Southwest Power Pool

OVERSIGHT COMMITTEE MEETING

April 4, 2011

Wright and Talisman Offices, Washington, D. C.

• M I N U T E S •

**Agenda Item 1 – Administrative Items**

SPP Chair Josh Martin called the meeting to order at 8:50 a.m. The following members were in attendance: Josh Martin (Director), Julian Brix (Director) and Phyllis Bernard (Director). Staff in attendance included Stacy Duckett, Alan McQueen, Lauren Krigbaum, and Philip Propes. Others in attendance included Harry Skilton (Director); Craig Roach, Stuart Rein and Vincent Musco (Boston Pacific); Barry Spector (Wright and Talisman); and Carol White (FERC).

Mr. Martin referred to draft minutes of the December 6, 2010 meeting and asked for corrections or a motion for approval (12/6/10 Minutes – Attachment 1). Phyllis Bernard moved for approval; Julian Brix seconded the motion. The motion passed unanimously.

**Agenda Item 2 – Review of Past Action Items**

Stacy Duckett reviewed the Action Items Report and addressed questions (Action Items - Attachment 2).

**Agenda Item 3 – Update on Current Activities**

Stacy Duckett opened the Activity Reports section by reviewing the recent reorganization of these groups, referring to the new organizational chart. The Committee asked questions regarding vacancies (Organizational Chart – Attachment 3).

**Internal Audit**

Lauren Krigbaum reviewed the activity report for Internal Audit (IA), including audits conducted during the quarter (IA Report – Attachment 4). The IA Charter was updated to reflect the recent reorganization. Ms. Krigbaum reviewed revisions to the audit plan. The Committee confirmed that the reports on the construction process are sufficient and desire to receive the reports monthly. Josh Martin asked what management responses were regarding audits and the process. Ms. Krigbaum confirmed responses are positive and in more cases the group is being sought out by some to assist with process reviews. Phyllis Bernard requested that directors do ethics training at least at some frequency.

**Internal Compliance**

Philip Propes reviewed the reorganization of the Compliance group (Compliance Report – Attachment 5). In addition to new assignments for Staff, there is now more structure to the member outreach component of services the group can offer. A Compliance Support Site (CSS) is also in development to provide an additional resource for entities. Josh Martin asked Mr. Propes to distribute his member outreach support program to the Board of Directors, and also include it in the Board of Directors meeting materials in April for wider distribution. Phyllis Bernard requested further clarification on the process around the CSS to ensure security of the information. Julian Brix asked for clarification regarding interactions between Compliance and the Regional Entity Staff, particularly on behalf of the entities. Mr. Propes discussed this, including a potential member group to assist as well.

**Market Monitoring Unit**

Alan McQueen reviewed the quarterly activity report for the Market Monitoring Unit (MMU Report – Attachment 6). The group hosted Carol White and Alan Haymes (FERC) in Little Rock for an education session. Mr. McQueen noted studies currently in process, reviewing issues raised by participants or SPP operations. Three issues were closed; two are in process. The MMU is busy with various metrics reports it supports. Harry Skilton asked if metrics are being used by management in its assessment of its work, staff meetings, etc. The Staff is to advise how the report is used internally. The MMU is hosting the EISG in Little Rock next week.
Phyllis Bernard requested additional information on SPP entities included in the NERC report.

**Agenda Item 4 – FERC Audit Status Report**

Stacy Duckett updated the Committee on the pending FERC audit. Focus has been on the Regional Entity and its separation from the RTO functions. The audit report is pending, but indications are good.

**Agenda Item 5 – Market Design Review Status**

Alan McQueen reviewed the process used by the MMU to review future market designs for efficiencies, use/abuse of market power, and market manipulation (Market Design Review – Attachment 7). By participating in the Market Working Group (MWG) meetings, several design elements were addressed (slide 3) so that today only a few issues remain. The MWG, for the most part, has taken the best of various markets to create the SPP market design. Primary concerns for the MMU were related to reserve zones; these have now been removed from the design. These issues remain open: Must Offer, Combined-Cycle Modeling and 5-minute Settlement. The MMU is not concerned with the Must Offer component because the design incents participation. The MMU doesn't take a position on the issue of combined cycle units in the market since it is not a real impact to market power issues and is not required for market start up. However, it should not drive the market project schedule and delay the benefits of the market. Josh Martin asked whether other markets are having issues with this design element. The MMU does support the inclusion of 5-minute Settlements to create efficiency and reduce gaming opportunities. This would get pricing and dispatch instructions in sync. The “work” will be done in Settlements systems (vs. Dispatch engine). Harry Skilton pointed out that Settlements already has/handles data at the 5-minute level, and participants shadow the same, although they are settling at an hourly average today. Phyllis Bernard noted potential impact to Smart Grid if SPP doesn’t move to the 5-minute Settlement as discussed at the MWG meeting. Mr. McQueen reviewed an example of the positive impact the 5-minute Settlement can have (slide 8). Incentives are better, in the MMU’s opinion, with 5-minute Settlement.

Craig Roach presented Boston Pacific’s (BP) review of the market design and MWG’s response to each. BP continues to support/encourage implementation of new markets but the questions is whether to do everything now. BP recommends all Designated Resources must be offered, not just resources selected for bidding in by participants, to ensure SPP has the option to select best prices from all, not just from a smaller set. BP, like SPP Staff, recommends a delay in inclusion of Combined-Cycles elements to avoid project delays and increased costs. This is important to the market, but should be a later enhancement. Harry Skilton noted that Settlements is very concerned with the settlements aspects of Combined-Cycles. BP recommends that the 5-minute Settlement intervals should be deferred due to the complexity. Harry Skilton noted Settlements concern that retaining one hour settlement will result in more disputes; he recommends that BP talk to Philip Bruich regarding issues they see if the 5-minute Settlement is avoided. Craig Roach then discussed possible compromise position(s) for consideration.

This agenda item generated considerable and robust discussion. The Committee thanked Alan and Craig for work on this initiative.

**Agenda Item 6 – 2010 State of the Market Report**

Alan McQueen presented an overview of the 2010 State of the Market Report (SOM Report – Attachment 8). The draft report will be circulated to the Committee in advance of its inclusion in the Board of Directors meeting materials.

**Agenda Item 7 – Looking Forward Report**

Craig Roach reviewed the Looking Forward Report solicited by the Committee (Looking Forward Presentation – Attachment 9). The Committee members are to provide any comments to Boston Pacific.

**Agenda Item 8 – Risk Assessment Initiative**

Lauren Krigbaum provided a report on the new Risk Assessment process required by the SSAE16 (replacement for SAS70). Internal Audit is meeting with each control objective owner to facilitate these assessments. The sessions have proceeded very well with several issues identified for further improvement/enhancement. All sessions will be completed this month. Harry Skilton thinks further
clarification is needed as to where Enterprise Risk Management should be reported. The Committee asks that the Corporate Governance Committee make a determination as to where it reports.

**Agenda Item 9 – Events of Interest**

Stacy Duckett noted several events have occurred in SPP and the industry that impact compliance and/or monitoring (Events of Interest – Attachment 10).

- Philip Propes noted the Acadiana Load Shed event and report made. Additional reporting will be provided to SERC.
- Philip Propes updated the Committee on the inquiry into the outages in the Southwest in February. Multiple reports are being provided to the regional entities, NERC, and FERC.
- Philip Propes reviewed the Grand River Dam Association (GRDA) issuance of violations. GRDA has been very active in the compliance forums and sought out other compliance support from SPP.
- Alan McQueen provided additional information on activities in the ERCOT market during the February 2-4 event. He then noted a recent New England case and how it might be treated in the SPP market.
- Boston Pacific reported on a special project recently completed for the SPP Staff.

**Agenda Item 10 – Future Meetings**

Josh Martin noted future meetings. The September meeting will be held in Washington, D.C.

The meeting adjourned at 3:10 p.m.

Respectfully Submitted,

Stacy Duckett  
Secretary
<table>
<thead>
<tr>
<th>Action Item</th>
<th>Date Originated</th>
<th>Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stacy Duckett will request initiation of a project for a full review of the SPP OATT and report at the next meeting.</td>
<td>March 25, 2009</td>
<td>Completed</td>
<td>Regulatory and Compliance reviewed the report and determined no revisions were required.</td>
</tr>
<tr>
<td>R. Dillon to provide MMU org chart</td>
<td>June 8, 2010</td>
<td>Completed</td>
<td>Review of staffing and organization provided at April 4 meeting.</td>
</tr>
<tr>
<td>Compliance to develop proposal for providing support to entities, perhaps for fee</td>
<td>September 30, 2010</td>
<td>Completed</td>
<td>Review of outreach initiatives will provided at April 4 meeting with update at June 13 meeting.</td>
</tr>
</tbody>
</table>
MARKET MONITORING REPORT
Oversight Committee
13 June 2011

Staffing
- Three new staff members will join the monitoring group on June 16, 2011
  o Catherine Mooney, Senior Market Monitor
  o Hanhan Hammer, Market Monitor II
  o Kevin Warren, Market Monitor II
- Engineer II position is open - John Wilson resigned and accepted a position with Entergy

Activity Update

- Federal Energy Regulatory Commission (FERC)
  o Continued weekly and monthly market update discussions with FERC staff on general market performance and major price spike events
  o Annual State of the Market Report presentation to FERC staff was scheduled for June 1 but was cancelled because of a power outage at FERC building. We requested that the meeting be rescheduled as part of the Semiannual meeting of all monitoring units with FERC Enforcement staff on June 22 and 23

- Market Studies
  o The MMU has concluded one special study related to Market Participant behavior and transmission renewal rights. There are currently two open cases. No new behavior studies have been opened since the last OC meeting in April.
  o The MMU reviewed two recent gaming issues at MISO and CAISO. The two issues are very similar and involve bidding strategies designed to increase revenues from make-whole payments. There are currently no concerns related to implications for SPP. However, this could change if SPP chooses to alter the market design. Please see Appendix – Market Issue Briefs for additional details.

- Reporting
  o Prepared several reports in support of corporate functions including the Corporate Metrics reports, Entergy Metrics reports and the coordination of the FERC/IRC annual metrics report.
  o Published regular Market Monitoring reports including the Monthly Metrics Report, monthly MWG market updates (both required by FERC) and the Market Monitoring Snapshot for the Board of Directors.
  o Submitted the 2010 Annual State of the Market report to FERC on May 11
• **Internal Initiatives**
  - Market Participant reviews have been informative and productive. Most participants indicated that they find the review to be beneficial but there is some decline in interest from previous years.
  - Currently conducting joint assessments of market issues with Operations including: scheduling from intermittent resources and VLR step function impacts

• **Integrated Marketplace**
  - The manager of Market Monitoring will be the business owner for the Business Intelligence work stream for the Integrated Marketplace project. This project is designed to ensure data from all Marketplace systems is effectively and efficiently collected, stored, and modeled for use by all SPP departments.
  - MMU is developing a contract for a Market Power Assessment. This study will determine if there are market power issues that need to be addressed in order for ancillary service products to be sold at market-based rates. The findings and resulting report will be part of the Integrated Marketplace filing with FERC.

Respectfully submitted,
Alan McQueen
Manager, Market Monitoring and Analysis
APPENDIX I – MARKET ISSUE BRIEFS

A. Combined Cycle Generation

To aid in understanding the impact and use of Combined Cycle (CC) generation in the SPP footprint, the MMU computed capacity factors by season for the twelve months ending June 1, 2011. Capacity factors represent the percentage of the generator’s capacity that is used in the production of electricity. The results are as follows: Summer 48%, Fall 26%, Winter 30%, and Spring 24%. This is less generation from CC than was expected.

B. Gaming Issues at MISO and CAISO

MISO (ER11-3572)

A loophole exists in the MISO market rules whereby a market participant may artificially lower their DA energy offer, increase their RT energy offer above the clearing price, and receive a payment for the difference between the DA offer and RT clearing price times the MW difference between the DA schedule and RT minimum.

Conceptually, if the resource can change its offer curve between DA and RT it can more accurately reflect any changes that may have occurred in fuel prices or other operational characteristics. However, this also provides an opportunity for participants to artificially lower their DA offers to ensure that DAMAP (Day Ahead Margin Assurance Payments) are received.

The MISO market monitor has recently observed bidding strategies targeting this design flaw. The manipulative behavior is as follows: a low, below cost, energy offer is submitted in the day-head market to ensure commitment and dispatch at the maximum output. This is followed by a real-time energy offer at or above the true marginal cost which may cause the generator to be dispatched at its minimum in real-time. The generator is then eligible for a DAMAP.

MISO has proposed modifications to its Tariff to remove the loophole by changing the methodology to use the higher of the DA or RT offers when calculating the participants DAMAP.

CAISO (ER11-3149)

The issue at CAISO is similar to that of MISO. The main exception is the use of the offer differentials to calculate a bid cost recovery amount that incorporates start-up, minimum
load, and ancillary energy costs subtracted from the expected DA revenue. Essentially, their methodology looks at the macro level when determining total revenue due the participant. Deductions are made for energy not supplied, whether as a result of actual market prices, or manipulated offers. If the actual generation is less than the scheduled generation, but greater than or equal to the minimum load value and full cost recovery cannot be achieved through the actual MW delivered, the participant receives a make whole payment.

CAISO has also observed bidding strategies designed to take advantage of this flaw. The observed strategies are identical to those observed at MISO.

CAISO proposed and FERC accepted Tariff changes that modified the bid cost recovery structure.

**EIS Market Implications**

There are no implications for the EIS Market for either of these issues. Unit commitment and a DA and RT market are required.

**Integrated Marketplace Implications**

As the Integrated Marketplace design currently stands, Market Participants could not benefit from employing the observed bidding strategies. The Marketplace does not have the type of make-whole payment that is being gamed; however, a Market Participant has recently proposed a Day-Ahead Margin Assurance Payment similar to the MISO design. The MMU will closely follow this issue as the Market Working Group considers any changes to the current design.
Southwest Power Pool, Inc.
INTERNAL AUDIT
Report to the Oversight Committee
June 13, 2011

Staffing
- The Internal Audit department is fully staffed.

Activity Update
- Updated 2011 Audit Schedule (see attached)
- Audits Completed Since Last Meeting:
  - **ICT Quarterly Assessment (Q4 2010)**
    The ICT (with the assistance of SPP Internal Audit) conducted a quarterly assessment of the Entergy Available Flowgate Capability (AFC) data retention processes. The purpose of the quarterly assessment was to examine the regular AFC and Weekly Procurement Process (WPP) data retention processes and investigate the FERC Lost, Inaccurate or Mishandled submissions submitted since the last assessment. The ICT also reviewed the pending recommendations and issues from the November 2010 assessment.
    See attached for summary.
  - **Facility Construction Project**
    Internal Audit completed a review of the New Facility Construction process for the period March 15, 2011 through April 18, 2011. The purpose of the review was to ensure the established process is followed, includes adequate controls to mitigate risks and to identify any gaps. The review also included an assessment of the status of project budget and construction schedule.
    See attached for summary.
  - **Form 5500 (Annual Return/Report of Employee Benefit Plan) Process**
    Internal Audit completed a limited-scope review of SPP’s Form 5500 (Annual Return/Report of Employee Benefit Plan) reporting process. The review was conducted as a routine part of IA’s review of the various components of SPP and at the request of the Oversight Committee of the SPP Board of Directors. The purpose of the review was to evaluate the efficiency and effectiveness of the process.
    See attached for summary
Annual Corporate Policy Reaffirmation

The Internal Audit department completed a review of SPP’s 2011 Policies Curriculum (employee corporate policies review process). SPP requires all employees to complete, annually, the review of all corporate policies to become aware of corporate requirements, guidelines, applicable laws, and job standards that employees must follow. The purpose of this review was to determine that procedures performed for the implementation, monitoring and administration of the Policies Curriculum, particularly for the year 2011, are adequately being executed.

See attached for summary.

Off We Go LLC

The Internal Audit department completed a review of costs and consumables in support of the May 2011 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.

Reviews Currently in Process:

Corporate Credit Cards

The purpose of this review is to evaluate the process and controls around SPP’s corporate American Express (AMEX) cards and the US Bank Visa cards to ensure the process is efficient and the controls are sufficient to ensure adequate safeguarding of SPP’s resources. The review is in the testing phase.

ICT Quarterly Assessment (Q1 2011)

The purpose of the quarterly assessment is to examine the regular AFC and Weekly Procurement Process (WPP) data retention processes and investigate the FERC Lost, Inaccurate or Mishandled submissions submitted since the last assessment. The review is in the reporting phase.

Fixed Assets

The purpose of this review is to ensure the fixed asset management process as performed: is supported by up-to-date and complete process documentation with sufficient information to support and serve the process purpose and deliverables; is accurate and complete in the acquiring, recording, monitoring, depreciating and disposing of fixed assets; includes adequate controls to mitigate risks; and does not have any process and/or control gaps. The report has been issued to line management. Once managements’ responses have been provided, the final report will be issued to senior management.
**IT Systems (EMS)**

Internal Audit (IA) is performing a review to evaluate the efficiency and effectiveness of processes and controls for SPP’s EMS process. The focus of this review is to assess the process of EMS access and security. Specifically to verify adequate controls are in place around user access, shared account management, password management and patch management to mitigate risks and maintain a secure environment. The review is in the reporting phase.

**CIP Review**

The purpose of this review is to assess SPP’s compliance with the requirements set forth by NERC standard CIP-003-3 which is focused on Cyber Security — Security Management Controls. The objective is to determine where process deficiencies and gaps exist in SPP’s current security management controls, security management policy and procedures, and security management operations (the day-to-day business practices) as they relate to the requirements mandated by CIP-003-3. The review is in the planning phase.

**Procurement (Bidding/Purchasing)**

The objective of this review is to evaluate the adequacy and efficiency of current procurement policies and procedures, including unbudgeted expenditures, as related to: adequate documentation in support of the procurement process; objectivity and transparency of the vendor selection process; adequate documentation in support of the receipt of goods and services process; and recording in the general ledger. The review is in the testing phase.

**ITSM Monitoring Tools**

The objective of the review is to determine SSAE 16-related monitoring tools are functioning properly and sufficiently to mitigate risk and provide reasonable assurance that business objectives are being met. The review is in the planning phase.

**Manage OASIS**

The purpose of the review is to evaluate the adequacy and efficiency of processes and controls related to managing SPP OASIS. Specifically, adequate processes and procedures are in place and functioning; controls exist to ensure postings to OASIS are complete, accurate, timely and secure; communication is open and timely; documentation is complete; and adherence to all federal, state and SPP policies. The review is in the reporting phase.

**Maintain Network Model**

The purpose of the review is to evaluate the adequacy and efficiency of processes and controls related to maintaining operations engineering network models. Specifically, adequate processes and procedures are in place and functioning; controls are in place to ensure model changes are obtained, verified
and/or developed accurately and completely; communication is open and
timely; documentation is complete; and network model maintenance is handled
in accordance to the SPP IT Change Management process. The review is in the
reporting phase.

- **Upcoming Reviews/Audits:**
  - Business Continuity Plan
  - ICT Quarterly Assessment (Q2 2011)
  - HR Compliance - Hiring Practices/HIPAA/Terminations; MPAAs; Background,
    Credit Checks (deferred until July 2011 as requested by auditee)
  - Tariff Revision Requests
  - SPP Tariff (Selected Sections)
  - Tariff Studies: Network Upgrades
  - Facility Construction Project
  - Accounts Payable
  - Annual Security Awareness Training
  - Benefits Administration
  - Expense Reports
  - Digital Certificate Management
  - Active Directory
  - NNL-to-MOS Interface
  - Off We Go LLC (Reimbursements)
  - Reserve Sharing Agreements
  - ComplianceLine Administration

- **Other Activities**
  - Staff continues to engage in Integrated Marketplace discussions; bringing
    perspective of internal controls, SSAE 16 and business. Staff is also reviewing
    high level business process documentation; helping to identify processes that may
    need to have SSAE 16 control objectives/activities.
  - New hire employee orientation training presentation on audit basics
SPP Internal Audit hosted the ISO/RTO Internal Audit Managers/Directors meeting April 20–21, 2011.

SSAE 16-related work:
- Preparation for Phase 1 of 2011 audit
- Phase 1 of 2011 audit
  - Participated in on-site interviews with all control owners
  - Communicated and acted as liaison between PwC and control owners
  - Collected and reviewed additional audit item requests
  - Two employees provided approximately 120 hours each of direct assistance to the external auditors (attempt to reduce outside service fee)
  - Drafting of Management’s Assertion for review by PwC
  - Facilitate/coordinate management’s response to potential exceptions
- Completion of continuous, periodic audits

Respectfully submitted,
Lauren Krigbaum
Director, Internal Audit
Activity Update

Member Outreach

The Compliance Services Site (CSS) is in place. It is estimated to go live for members and registered entities in the next month. The department hosted a preliminary review of its capabilities for the members on our last compliance call. Screenshots are included as attachments.

Compliance Department staff continues to respond to emails and phone calls from members and registered entities on numerous compliance issues. Some of those topics this past quarter included: CIP, critical facilities, types of evidence for PRC-005, IROL Relief Guide updates, EOP hours, etc.

The Compliance Department is currently supporting SPP’s new Standards Development Team in facilitating calls to gather comments from members and registered entities on standards under development. To date, the department has facilitated 12 calls. These calls are typically held weekly.

The Member Compliance Group coordination is underway. Members and registered entities were surveyed on the need for the group. 107 surveys were returned and showed favorable results to pursue the group. The Compliance Department met with Stacy Dochoda of the SPP RE to discuss moving forward with the group. Next steps include selecting participants. Survey results also returned a high number of interested individuals willing to participate.

MOD Standards

After over a year of work on the MOD Standards Project, and as part of our assistance to SPP members, the SPP RTO Compliance Department prepared a Compliance Bulletin to assist entities that are registered with NERC as Transmission Operators (TOPs) in demonstrating compliance with the TOP requirements (Approx. 35) in four MOD Standards (MOD-001-1/MOD-004-1/MOD-008-1/MOD-030-2); effective April 1, 2011. To enhance the quality and effectiveness of the Bulletin, the Compliance Department met on several occasions with the SPP Regional Entity and the MRO Regional Entity for their respective input regarding how the Standards would be audited, including opinions of the proposed evidence that might be submitted to demonstrate compliance for the TOP requirements.

Prior to the effective date of the new MOD Standards, the Compliance Department held conference calls with the SPP TOPs to discuss the new MOD Standards, including some of the specific information that the auditors will expect to see from the TOPs upon audit of these Standards.

As the audit dates for different entities near, the Compliance Department continues to assist members with compliance related questions regarding the new MOD Standards.

TOP-002-2/R11

The SPP RTO Compliance Department helped facilitate the drafting of an Agreement between the SPP Reliability Coordinator (RC) and Transmission Operators (TOP) within the SPP footprint in order to assist
the TOPs in demonstrating compliance of TOP-002/R11. The Agreement formalizes the SPP RC’s process of preparing its next-day studies and current-day studies, which are continuously updated to reflect current topology. TOP-002, R11 requires TOPs to perform seasonal, next-day, and current-day Bulk Electric System studies to determine SOLs, and to update the studies, as necessary, in order to reflect current system conditions.

The Compliance Department met on several occasions with the SPP Regional Entity in order to gain their perspective about auditing this requirement.

**On-site and In-House Review Coordination**

Compliance Department staff has been requested to perform, and have scheduled, an on-site mock audit of Empire District for mid-July.

Seven additional member companies have requested assistance and staff is working with them to develop a scope of review.

The department has completed one in-house review of registered entity, Green Country Energy, and received favorable reviews.

**Corporate Outreach**

Compliance Department staff will be hosting internal compliance forums to discuss hot topics and best practices with internal groups. The department will host one with Operations Engineering in September and begin hosting forums for the Reliability Coordinators in the fall.

**SPP Criteria**

Compliance Department staff is working with Carl Monroe to review SPP Criteria to accomplish 3 goals:

- Remove obsolete Criteria Sections
- Move identified Criteria sections into a Regional Reliability Standard (and/or)
- Move identified Criteria sections into a ‘best practices’ document

Compliance Department staff is also working with IT to draft correspondence aimed at SPP members who have not configured their ICCP servers to connect to the SPP primary and disaster recovery sites pursuant to SPP Criteria Appendix 7.

**CIP**

In May, the department began facilitating quarterly CIP related calls to cover a variety of topics.

June kicked off a full document review, including revisions and annual approvals, for IT; led by the Compliance Department. SPP’s annual Incident Response Training and Exercise in support of CIP-008 is underway, as well as our Recovery Exercise to support CIP-009.

**Upcoming Meetings**

CIPWG – June 14th at KCPL
Compliance Forums – July 20th – KCPL (Kansas City, MO)

October 6th – Little Rock (Following the SPP RE Workshop)

Respectfully submitted,

Philip Propes

Director, Compliance
The board administrator requires all members to sign in.

Sign In

Enter your sign in name and password

Username: 
Password: 

I've forgotten my password

Remember me
This is not recommended for shared computers

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Not a member?

If you aren't a member yet, it only takes a couple of minutes to register! Members get these benefits and more!

- Start new topics and reply to others
- Subscribe to topics and forums to get automatic updates
- Add events to our community calendar
- Get your own profile and make new friends
- Customize your experience here
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| BAL questions, comments, concerns, and recommendations. | 0 Replies | In: Welcome!  
| By: admin | | |
| Communications (COM)                         | 1 Topics | 11 May 2011 - 02:42 PM   
| COM questions, comments, concerns, and recommendations. | 0 Replies | In: Welcome!  
| By: admin | | |
| Critical Infrastructure Protection (CIP)      | 1 Topics | 11 May 2011 - 02:47 PM   
| CIP questions, comments, concerns, and recommendations. | 0 Replies | In: Welcome!  
| By: admin | | |
| Emergency Preparedness and Operations (EOP)   | 1 Topics | 11 May 2011 - 09:43 PM   
| EOP questions, comments, concerns, and recommendations. | 0 Replies | In: Welcome!  
| By: admin | | |
| Facilities Design, Connections, and Maintenance (FAC) | 1 Topics | 11 May 2011 - 00:40 PM   
| FAC questions, comments, concerns, and recommendations. | 0 Replies | In: Welcome!  
| By: admin | | |
| Interchange Scheduling and Coordination (INT) | 1 Topics | 11 May 2011 - 09:50 PM   
| INT questions, comments, concerns, and recommendations. | 0 Replies | In: Welcome!  
| By: admin | | |
| Interconnection Reliability Operations and Coordination (IRO) | 1 Topics | 11 May 2011 - 09:53 PM   
| IRO questions, comments, concerns, and recommendations. | 0 Replies | In: Welcome!  
| By: admin | | |
| Modeling, Data, and Analysis (MOD)            | 1 Topics | 11 May 2011 - 09:54 PM   
| MOD questions, comments, concerns, and recommendations. | 0 Replies | In: Welcome!  
| By: admin | | |
Member List

Page 1 of 1

Member name Post Count Join Date
---
admin

Joined: 21-April 11
Group: Administrators
Posts: 13
Views: 1
Reputation: 0

Alison Hayes

Joined: 18-May 11
Group: Members
Posts: 0
Views: 0
Reputation: 0

April Brooks

Joined: 18-May 11
Group: Moderators
Posts: 0
Views: 3
Reputation: 0

Ashley Stringer

Joined: 12-May 11
Posts: 0
Views: 0
Reputation: 0
Latest News

Compliance Department Services

May 18 2011 09:43 PM | Matt Roberson in Frontpage

The SPP Compliance Department is proud to serve its members and registered entities by evaluating their compliance readiness, and dedicated to serving you...the customer. Please select the “Compliance Services” tab above for more information.

Compliance Reviews

The SPP Compliance Department is proud to serve its members and registered entities by evaluating their compliance readiness.

These reviews provide an objective, external review of processes, documentation, and compliance evidence, and also provide feedback and formal recommendations to members and registered entities.

In-House Reviews (Service Option 1)

These reviews will involve the submission of member RSAWs (Reliability Standard Audit Worksheets), documentation, and evidence for SPP Compliance staff review.

Those receiving an SPP In-House Compliance Review should expect to receive recommendations tailored at an overview level.

On-Site Reviews (Service Option 2)

These reviews will involve an on-site visit by SPP Compliance staff to more actively engage in a mock review/audit exercises.

Those receiving an SPP On-Site Compliance Review should expect to receive more comprehensive recommendations.
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- **$35,000**
- **$30,000**
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- **$15,000**
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April 29, 2011

Ms. Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: NERC Abbreviated Notice of Penalty regarding Unidentified Registered Entity,
FERC Docket No. NP11-__-000

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby provides this Abbreviated Notice of Penalty (NOP) regarding Unidentified Registered Entity (URE), with information and details regarding the nature and resolution of the violations1 discussed in detail in the Settlement Agreement (Attachment a) and the Disposition Documents attached thereto, in accordance with the Federal Energy Regulatory Commission’s (Commission or FERC) rules, regulations and orders, as well as NERC Rules of Procedure including Appendix 4C (NERC Compliance Monitoring and Enforcement Program (CMEP)).2

This NOP is being filed with the Commission because Southwest Power Pool Regional Entity (SPP RE), Texas Reliability Entity, Inc. (Texas RE) and URE have entered into a Joint Settlement Agreement3 to resolve all outstanding issues arising from SPP RE and Texas RE’s determination and findings of the enforceable violations of PRC-005-1 Requirement (R) 1.1, R2 and R1.2; CIP-005-1 R2; CIP-006-1 R1.8; CIP-003-1 R1.1; CIP-004-1 R2.2.2; FAC-003-1 R1; FAC-008-1 R1; FAC-009-1 R1; CIP-007-1 R1; CIP-008-1 R1.6; and CIP-005-1 R1.5.

According to the Settlement Agreement, URE neither admits nor denies the violations, and has

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1 For purposes of this document, each violation at issue is described as a “violation,” regardless of its procedural posture and whether it was a possible, alleged or confirmed violation.


3 For purposes of this Settlement Agreement, Texas RE is a party of interest only in regards to violation FAC-003-1 R1 (TRE200900087).
agreed to the assessed penalty of fifty thousand dollars ($50,000),\(^4\) in addition to other remedies and actions to mitigate the instant violations and facilitate future compliance under the terms and conditions of the Settlement Agreement. Accordingly, the violations identified as NERC Violation Tracking Identification Numbers SPP200900087, SPP200900088, SPP200900089, SPP200900108, SPP200900109, SPP200900138, SPP200900139, SPP200900140, TRE200900087, SPP200900141, SPP200900142, SPP200900143, SPP200900144 and SPP201000340 are being filed in accordance with the NERC Rules of Procedure and the CMEP.

**Statement of Findings Underlying the Violations**

This NOP incorporates the findings and justifications set forth in the Settlement Agreement executed on April 27, 2011, by and between SPP RE, Texas RE and URE. The details of the findings and the basis for the penalty are set forth in the Disposition Documents. This NOP filing contains the basis for approval of the Settlement Agreement by the NERC Board of Trustees Compliance Committee (NERC BOTCC). In accordance with Section 39.7 of the Commission’s regulations, 18 C.F.R. § 39.7, NERC provides the following summary table identifying each violation of a Reliability Standard resolved by the Settlement Agreement, as discussed in greater detail below.

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<thead>
<tr>
<th>NOC ID</th>
<th>NERC Violation ID</th>
<th>Reliability Std.</th>
<th>Req. (R)</th>
<th>VRF</th>
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\(^4\) Of the $50,000 total penalty amount, $1,230 is allocated to Texas RE for FAC-003-1 R1 (TRE200900087) and $48,770 is allocated to SPP RE.

\(^5\) When NERC filed Violation Risk Factors (VRFs) for PRC-005-1, NERC originally assigned a “Medium” VRF to PRC-005-1 R1. In the Commission’s May 18, 2007 Order on Violation Risk Factors, the Commission approved the VRF as filed but directed modifications. On June 1, 2007, NERC filed a modified “High” VRF for PRC-005 R1 for approval. On August 9, 2007, the Commission issued an Order approving the modified VRF. Therefore, the “Medium” VRF was in effect from June 18, 2007 until August 9, 2007 and the “High” VRF has been in effect since August 9, 2007.

\(^6\) PRC-005-1 R2 has a “Lower” VRF; R2.1 and R2.2 each have a “High” VRF. During a final review of the standards subsequent to the March 23, 2007 filing of the Version 1 VRFs, NERC identified that some standards requirements were missing VRFs; one of these include PRC-005-1 R2.1. On May 4, 2007, NERC assigned PRC-005 R2.1 a “High” VRF. In the Commission’s June 26, 2007 Order on Violation Risk Factors, the Commission approved the PRC-005-1 R2.1 “High” VRF as filed. Therefore, the “High” VRF was in effect from June 26, 2007. In the context of this case, SPP RE determined that the violation related to both R2.1 and R2.2, and therefore a “High” VRF is appropriate.

\(^7\) See n. 3.

\(^8\) CIP-005-1 R2, R2.1, R2.2, R2.3 and R2.4 each have a “Medium” VRF; R2.5 and its sub-requirements and R2.6 each have a “Lower” VRF.
The text of the Reliability Standards at issue and further information on the subject violations are set forth in the Disposition Documents.

PRC-005-1 R1.1, R1.2 and R2 (SPP200900087-89) - OVERVIEW
On July 9, 2009, URE self-reported violations of PRC-005-1 R1.1, R1.2 and R2. SPP RE determined that URE did not document the maintenance and testing intervals and basis for 43% of its Protection System devices as required by R1.1; did not have a summary of maintenance and testing procedures for 8% of its Protection System devices as required by R1.2; could not provide evidence that 33% of its Protection System devices were maintained and tested within

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9 CIP-006-1 R1, R1.1, R1.2, R1.3, R1.4, R1.5 and R1.6 each have a “Medium” VRF; R1.7 and R1.8 each have a “Lower” VRF.
10 CIP-003-1 R1 has a “Medium” VRF; R1.1, R1.2 and R1.3 each have a “Lower” VRF. When NERC filed VRFs it originally assigned CIP-003-1 R1 a “Lower” VRF. The Commission approved the VRF as filed; however, it directed NERC to submit modifications. NERC submitted the modified “Medium” VRF and on January 27, 2009, the Commission approved the modified “Medium” VRF. Therefore, the “Lower” VRF for CIP-003-1 R1 was in effect from June 18, 2007 until January 27, 2009, when the “Medium” VRF became effective.
11 CIP-004-1 R2, R2.2.1, R2.2.2, R2.2.3 and R2.3 each have a “Lower” VRF; R2.1, R2.2 and R2.2.4 each have a “Medium” VRF.
12 FAC-008-1 R1, R1.3 and R1.3.5 each have a “Lower” VRF; R1.1, R1.2, R1.2.1, R1.2.2, R1.3.1-4 each have a “Medium” VRF. When NERC filed VRFs it originally assigned FAC-008-1 R1.1, R1.2, R1.2.1 and R1.2.2 “Lower” VRFs. The Commission approved the VRFs as filed; however, it directed NERC to submit modifications. NERC submitted the modified “Medium” VRFs and on February 6, 2008, the Commission approved the modified “Medium” VRFs. Therefore, the “Lower” VRFs for FAC-008-1 R1.1, R1.2, R1.2.1 and R1.2.2 were in effect from June 18, 2007 until February 6, 2008 when the “Medium” VRFs became effective.
13 CIP-007-1 R1 and R1.1 each have a “Medium” VRF; R1.2 and R1.3 each have a “Lower” VRF.
14 CIP-005-1 R1, R1.1, R1.2, R1.3, R1.4 and R1.5 each have a “Medium” VRF; R1.6 has a “Lower” VRF.
defined intervals as required by R2.1; and could not substantiate the dates 20% of its Protection System devices were last tested and maintained as required by R2.2.

**CIP-005-1 R2 (SPP200900108) - OVERVIEW**
On August 4, 2009, URE self-reported a violation of CIP-005-1 R2. SPP RE determined that URE, as a Responsible Entity,\(^{15}\) did not document the organizational processes and technical and procedural mechanisms that it was using to control access to electronic access points to the Electronic Security Perimeter (ESP).

**CIP-006-1 R1.8 (SPP200900109) - OVERVIEW**
On August 18, 2009, URE self-reported a violation of CIP-006-1 R1.8. SPP RE determined that URE, as a Responsible Entity, did not afford all of the protective measures required to its card access “badge” system that controls physical access to the Physical Security Perimeter (PSP). Specifically, the badge system servers lacked security features required by CIP-007-1, including anti-virus protection and a security patch management program and a backup and recovery plan as required by CIP-009-1.

**CIP-003-1 R1.1 (SPP200900138) - OVERVIEW**
During a Spot Check, SPP RE discovered a violation of CIP-003-1 R1.1. SPP RE determined that URE, as a Responsible Entity, did not document and implement a cyber security policy that addressed all of the requirements in CIP-002 through CIP-009, specifically the individual requirements nor emergency situations.

**CIP-004-1 R2.2.2 (SPP200900139) - OVERVIEW**
During the Spot Check, SPP RE determined that URE failed to include instructional information pertaining to the use of physical and electronic access controls to Critical Cyber Assets (CCAs) in its annual cyber security training program.

**FAC-003-1 R1 (SPP200900140 and TRE200900087) - OVERVIEW**
SPP RE and Texas RE determined that URE did not have a documented transmission vegetation management program as required.

**FAC-008-1 R1 and FAC-009-1 R1 (SPP200900141 and SPP200900142) - OVERVIEW**
SPP RE determined that URE did not have a formal Facility Ratings Methodology for its generators, and the document it was using failed to note that the Facility Rating shall equal the most limiting applicable Equipment Rating as required under R1.1 and specify the method for determining the Rating as required under R1.2, R1.2.1 and R1.2.2. Because SPP RE determined that URE did not have a documented Facility Ratings as required by FAC-008-1 R1, URE’s Facility Ratings were based on an incomplete Facility Ratings Methodology which failed to identify the most limiting element. Therefore, SPP RE determined that URE had a violation of

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\(^{15}\) Within the text of Standard CIP-002 through CIP-009, “Responsible Entity” shall mean Reliability Coordinator, Balancing Authority, Interchange Authority, Transmission Service Provider, Transmission Owner, Transmission Operator, Generator Owner, Generator Operator, Load Serving Entity, NERC, and Regional Reliability Organizations.
In addition, SPP RE determined that URE failed to demonstrate that it consistently applied its Facility Rating Methodology to each transmission facility element, or that it selected the most limiting element to determine a rating.

CIP-007-1 R1 (SPP200900143) - OVERVIEW
During the Spot Check, SPP RE determined that URE did not have adequate cyber security test procedures specifically ensuring that new CCAs and significant changes to existing Cyber Assets within the ESP do not adversely affect existing cyber security controls.

CIP-008-1 R1.6 (SPP200900144) - OVERVIEW
During the Spot Check, SPP RE determined that URE failed to perform an annual test of its Cyber Security Incident response plan as required.

CIP-005-1 R1.5 (SPP201000340) - OVERVIEW
On July 27, 2010, URE self-reported a violation of CIP-005-1 R1.5. SPP RE determined that URE did not document testing procedures for CCAs that control or monitor an ESP to demonstrate that testing is performed in a manner that reflects the production environment, as required by CIP-007-1 R1.

Statement Describing the Assessed Penalty, Sanction or Enforcement Action Imposed

Basis for Determination

Taking into consideration the Commission’s direction in Order No. 693, the NERC Sanction Guidelines, the Commission’s July 3, 2008, October 26, 2009 and August 27, 2010 Guidance Orders, the NERC BOTCC reviewed the Settlement Agreement and supporting documentation on February 15, 2011. The NERC BOTCC approved the Settlement Agreement, including SPP RE and Texas RE’s assessment of a fifty thousand dollar ($50,000) financial penalty against URE and other actions to facilitate future compliance required under the terms and conditions of the Settlement Agreement. In approving the Settlement Agreement, the NERC BOTCC reviewed the applicable requirements of the Commission-approved Reliability Standards and the underlying facts and circumstances of the violations at issue.

In reaching this determination, the NERC BOTCC considered the following factors:

1. the violations constituted URE first occurrence of violation of the subject NERC Reliability Standards;
2. URE self-reported the PRC-005-1, CIP-005-1 and CIP-006-1 violations;

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16 Based on the NERC Sanction Guidelines, SPP RE determined the violations of FAC-008-1 R1 and FAC-009-1 R1 were “related to a single act or common incidence of non-compliance” for which SPP RE would assess “a single aggregate penalty.”
17 See 18 C.F.R. § 39.7(d)(4).
3. SPP RE determined the violations of FAC-008-1 R1 and FAC-009-1 R1 were “related to a single act or common incidence of non-compliance” for which SPP RE would assess “a single aggregate penalty;”

4. SPP RE and Texas RE reported that URE was cooperative throughout the compliance enforcement process;

5. URE had a compliance program at the discovery time of the violations which SPP RE and Texas RE considered a mitigating factor, as discussed in the Disposition Documents;

6. there was no evidence of any attempt to conceal a violation nor evidence of intent to do so;

7. SPP RE and Texas RE determined that the violations did not pose a serious or substantial risk to the reliability of the bulk power system (BPS), as discussed in the Disposition Documents; and

8. SPP RE and Texas RE reported that there were no other mitigating or aggravating factors or extenuating circumstances that would affect the assessed penalty.

For the foregoing reasons, the NERC BOTCC approves the Settlement Agreement and believes that the assessed penalty of fifty thousand dollars ($50,000) is appropriate for the violations and circumstances at issue, and is consistent with NERC’s goal to promote and ensure reliability of the BPS.

Pursuant to 18 C.F.R. § 39.7(e), the penalty will be effective upon expiration of the 30 day period following the filing of this NOP with FERC, or, if FERC decides to review the penalty, upon final determination by FERC.

**Request for Confidential Treatment**

Information in and certain attachments to the instant NOP include confidential information as defined by the Commission’s regulations at 18 C.F.R. Part 388 and orders, as well as NERC Rules of Procedure including the NERC CMEP Appendix 4C to the Rules of Procedure. This includes non-public information related to certain Reliability Standard violations, certain Regional Entity investigative files, Registered Entity sensitive business information and confidential information regarding critical energy infrastructure.

In accordance with the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 388.112, a non-public version of the information redacted from the public filing is being provided under separate cover.

Because certain of the attached documents are deemed confidential by NERC, Registered Entities and Regional Entities, NERC requests that the confidential, non-public information be provided special treatment in accordance with the above regulation.
May 26, 2011

Ms. Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC  20426

Re:  NERC Abbreviated Notice of Penalty regarding Unidentified Registered Entity,
FERC Docket No. NP11-__-000

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby provides this Abbreviated Notice of Penalty (NOP) regarding Unidentified Registered Entity (URE), with information and details regarding the nature and resolution of the violations1 discussed in detail in the Settlement Agreement (Attachment a) and the Disposition Documents attached thereto, in accordance with the Federal Energy Regulatory Commission’s (Commission or FERC) rules, regulations and orders, as well as NERC Rules of Procedure including Appendix 4C (NERC Compliance Monitoring and Enforcement Program (CMEP)).2

This NOP is being filed with the Commission because Southwest Power Pool Regional Entity (SPP RE) and URE have entered into a Settlement Agreement to resolve all outstanding issues arising from SPP RE’s determination and findings of the enforceable violations of: CIP-004-1 Requirement (R) 4; PRC-005-1 R2.1; FAC-008-1 R1; FAC-009-1 R1; CIP-003-1 R1; CIP-004-1 R3.2; and BAL-003-0.1b R2. According to the Settlement Agreement, URE neither admits nor denies the violations, but has agreed to the assessed penalty of sixteen thousand eight hundred sixty dollars ($16,860), in addition to other remedies and actions to mitigate the instant violations and facilitate future compliance under the terms and conditions of the Settlement Agreement. Accordingly, the violations identified as NERC Violation Tracking Identification Numbers: SPP200900086, SPP200900162, SPP200900163, SPP200900164, SPP200900165,

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1 For purposes of this document, each violation at issue is described as a “violation,” regardless of its procedural posture and whether it was a possible, alleged or confirmed violation.

SPP200900166 and SPP201000260 are being filed in accordance with the NERC Rules of Procedure and the CMEP.

**Statement of Findings Underlying the Violations**

This NOP incorporates the findings and justifications set forth in the Settlement Agreement executed on May 19, 2011, by and between SPP RE and URE. The details of the findings and the basis for the penalty are set forth in the Disposition Documents. This NOP filing contains the basis for approval of the Settlement Agreement by the NERC Board of Trustees Compliance Committee (NERC BOTCC). In accordance with Section 39.7 of the Commission’s regulations, 18 C.F.R. § 39.7, NERC provides the following summary table identifying each violation of a Reliability Standard resolved by the Settlement Agreement, as discussed in greater detail below.

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</tbody>
</table>

3 CIP-004-1 R4 and R4.1 each have a “Lower” Violation Risk Factor (VRF); R4.2 has a “Medium” VRF. When NERC filed VRFs, it originally assigned CIP-004-1 R4.2 a Lower VRF. The Commission approved the VRF as filed; however, it directed NERC to submit modifications. NERC submitted the modified “Medium” VRF and on January 27, 2009, the Commission approved the modified “Medium” VRF. Therefore, the “Lower” VRF for CIP-004-1 R4.2 was in effect from June 18, 2007 until January 27, 2009 when the “Medium” VRF became effective.

4 PRC-005-1 R2 has a “Lower” VRF; R2.1 and R2.2 each have a “High” VRF. During a final review of the standards subsequent to the March 23, 2007 filing of the Version 1 VRFs, NERC identified that some standards requirements were missing VRFs; one of these include PRC-005-1 R2.1. On May 4, 2007, NERC assigned PRC-005 R2.1 a “High” VRF. In the Commission’s June 26, 2007 Order on Violation Risk Factors, the Commission approved the PRC-005-1 R2.1 “High” VRF as filed. Therefore, the “High” VRF was in effect from June 26, 2007. In the context of this case, SPP RE determined that the violation related to R2.1, and therefore a “High” VRF is appropriate.

5 FAC-008-1 R1, R1.3 and R1.3.5 each have a “Lower” VRF; R1.1, R1.2, R1.2.1, R1.2.2, R1.3.1-4 each have a “Medium” VRF. When NERC filed VRFs it originally assigned FAC-008-1 R1.1, R1.2, R1.2.1 and R1.2.2 “Lower” VRFs. The Commission approved the VRFs as filed; however, it directed NERC to submit modifications. NERC submitted the modified “Medium” VRFs and on February 6, 2008, the Commission approved the modified “Medium” VRFs. Therefore, the “Lower” VRFs for FAC-008-1 R1.1, R1.2, R1.2.1 and R1.2.2 were in effect from June 18, 2007 until February 6, 2008 when the “Medium” VRFs became effective.

6 CIP-003-1 R1 has a “Medium” VRF; R1.1, R1.2 and R1.3 each have a “Lower” VRF. When NERC filed VRFs it originally assigned CIP-003-1 R1 a “Lower” VRF. The Commission approved the VRF as filed; however, it directed NERC to submit modifications. NERC submitted the modified “Medium” VRF and on January 27, 2009, the Commission approved the modified “Medium” VRF. Therefore, the “Lower” VRF for CIP-003-1 R1 was in effect from June 18, 2007 until January 27, 2009, when the “Medium” VRF became effective.
The text of the Reliability Standards at issue and further information on the subject violations are set forth in the Disposition Documents.

CIP-004-1 R4 - OVERVIEW
The violation was discovered when a compliance investigation was initiated by URE. The investigation was concluded and URE self-reported this violation. SPP RE determined that URE failed to revoke the Critical Cyber Asset access of forty-four (44) personnel within seven calendar days following their termination of employment.

PRC-005-1 R2.1 - OVERVIEW
URE self-reported this violation. SPP RE determined that URE did not perform its two-month battery inspections for 100% of its station batteries. This failure to inspect the station batteries within the required interval implicated 2% of URE’s total Protection System devices.

FAC-008-1 R1 - OVERVIEW
This violation was discovered during a Compliance Audit. SPP RE determined that URE did not have a documented generator Facility Ratings Methodology prior to 2009 and URE’s generator Facility Ratings Methodology did not address relay protective devices and terminal equipment.

FAC-009-1 R1 - OVERVIEW
This violation was discovered during a Compliance Audit. SPP RE determined that URE did not establish ratings for its terminal equipment in its transmission in accordance with its Facility Ratings Methodology.

CIP-003-1 R1 - OVERVIEW
This violation was discovered during a Spot-Check. SPP RE determined that URE did not have a Cyber Security Policy which addressed all the requirements of CIP-002 through CIP-009. URE also did not make all of the Cyber Security Policy documents available to all personnel with authorized electronic or authorized unescorted physical access to Critical Cyber Assets. Finally, URE’s Cyber Security Policy was not approved in the method required by the Standard.

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7 CIP-004-1 R3 has a “Medium” VRF; R3.1, R3.2 and R3.3 each have a “Lower” VRF. When NERC filed VRFs it originally assigned CIP-004-1 R3 a “Lower” VRF. The Commission approved the VRF as filed; however, it directed NERC to submit modifications. NERC submitted the modified “Medium” VRF and on January 27, 2009, the Commission approved the modified “Medium” VRF. Therefore, the “Lower” VRF for CIP-004-1 R3 was in effect from June 18, 2007 until January 27, 2009, when the “Medium” VRF became effective.

8 BAL-003-0 was enforceable from June 18, 2007 through August 27, 2008. BAL-003-0a was approved by the Commission and became enforceable on August 28, 2008. BAL-003-0.1b is the current enforceable Standard as of May 13, 2009. The subsequent interpretations provide clarity regarding the responsibilities of a registered entity and do not change the meaning or language of the original NERC Reliability Standard and its requirements. For consistency in this filing, the current version of the Standard, BAL-003-0.1b, is used throughout.

9 The NERC Glossary of Terms Used in Reliability Standards defines Protection System as “Protective relays, associated communication systems, voltage and current sensing devices, station batteries and DC control circuitry.”
CIP-004-1 R3.2 - OVERVIEW
This violation was discovered during a Spot-Check. SPP RE determined that URE did not update risk assessments for two individuals with authorized access to Critical Cyber Assets within seven years.

BAL-003-0.1b R2 - OVERVIEW
This violation was discovered during a Spot-Check. SPP RE determined that URE did not perform the calculations to determine the frequency response to its system using either of the two calculation methods outlined in R2.1 or R2.2.

Statement Describing the Assessed Penalty, Sanction or Enforcement Action Imposed

Basis for Determination

Taking into consideration the Commission’s direction in Order No. 693, the NERC Sanction Guidelines, the Commission’s July 3, 2008, October 26, 2009 and August 27, 2010 Guidance Orders, the NERC BOTCC reviewed the Settlement Agreement and supporting documentation on March 11, 2011. The NERC BOTCC approved the Settlement Agreement, including SPP RE’s assessment of a sixteen thousand eight hundred sixty dollar ($16,860) financial penalty against URE and other actions to facilitate future compliance required under the terms and conditions of the Settlement Agreement. In approving the Settlement Agreement, the NERC BOTCC reviewed the applicable requirements of the Commission-approved Reliability Standards and the underlying facts and circumstances of the violations at issue.

In reaching this determination, the NERC BOTCC considered the following factors:

1. the violations constituted URE’s first occurrence of violations of the subject NERC Reliability Standards;
2. URE self-reported the CIP-004-1 R4 and PRC-005-1 R2.1 violations. The Violation of CIP-004-1 R4 (SPP200900086) was self-reported after a Compliance Investigation was initiated and therefore did not receive any self-reporting credit;
3. SPP RE reported that URE was cooperative throughout the compliance enforcement process;
4. URE had a compliance program at the time of the violation which SPP RE considered a mitigating factor, as discussed in the Disposition Documents;
5. there was no evidence of any attempt to conceal a violation nor evidence of intent to do so;

See 18 C.F.R. § 39.7(d)(4).

6. SPP RE determined that the violations posed a minimal risk and did not pose a serious or substantial risk to the reliability of the bulk power system (BPS), as discussed in the Disposition Documents; and

7. SPP RE reported that there were no other mitigating or aggravating factors or extenuating circumstances that would affect the assessed penalty.

For the foregoing reasons, the NERC BOTCC approved the Settlement Agreement and believes that the assessed penalty of sixteen thousand eight hundred sixty dollars ($16,860) is appropriate for the violations and circumstances at issue, and is consistent with NERC’s goal to promote and ensure reliability of the BPS.

Pursuant to 18 C.F.R. § 39.7(e), the penalty will be effective upon expiration of the 30 day period following the filing of this NOP with FERC, or, if FERC decides to review the penalty, upon final determination by FERC.

Request for Confidential Treatment

Information in and certain attachments to the instant NOP include confidential information as defined by the Commission’s regulations at 18 C.F.R. Part 388 and orders, as well as NERC Rules of Procedure including the NERC CMEP Appendix 4C to the Rules of Procedure. This includes non-public information related to certain Reliability Standard violations, certain Regional Entity investigative files, Registered Entity sensitive business information and confidential information regarding critical energy infrastructure.

In accordance with the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 388.112, a non-public version of the information redacted from the public filing is being provided under separate cover.

Because certain of the attached documents are deemed confidential by NERC, Registered Entities and Regional Entities, NERC requests that the confidential, non-public information be provided special treatment in accordance with the above regulation.
May 26, 2011

Ms. Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC  20426

Re:  NERC Abbreviated Notice of Penalty regarding Unidentified Registered Entity,  
FERC Docket No. NP11-__-000

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby provides this Abbreviated Notice of Penalty (NOP) regarding Unidentified Registered Entity (URE), with information and details regarding the nature and resolution of the violations1 discussed in detail in the Settlement Agreement (Attachment a) and the Disposition Documents attached thereto, in accordance with the Federal Energy Regulatory Commission’s (Commission or FERC) rules, regulations and orders, as well as NERC Rules of Procedure including Appendix 4C (NERC Compliance Monitoring and Enforcement Program (CMEP)).2

This NOP is being filed with the Commission because Southwest Power Pool Regional Entity (SPP RE) and URE have entered into a Settlement Agreement to resolve all outstanding issues arising from SPP RE’s determination and findings of the enforceable violations of: PRC-005-1 R2.1; FAC-008-1 R1; FAC-009-1 R1; CIP-003-1 R1; CIP-004-1 R4.2; CIP-007-1 R1; and BAL-003-0.1b R2. According to the Settlement Agreement, URE neither admits nor denies the violations, but has agreed to the assessed penalty of seventeen thousand eight hundred sixty dollars ($17,860), in addition to other remedies and actions to mitigate the instant violations and facilitate future compliance under the terms and conditions of the Settlement Agreement. Accordingly, the violations identified as NERC Violation Tracking Identification Numbers:

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1 For purposes of this document, each violation at issue is described as a “violation,” regardless of its procedural posture and whether it was a possible, alleged or confirmed violation.

SPP200900168, SPP200900169, SPP200900170, SPP200900178, SPP200900180, SPP200900181 and SPP201000253 are being filed in accordance with the NERC Rules of Procedure and the CMEP.

Statement of Findings Underlying the Violations
This NOP incorporates the findings and justifications set forth in the Settlement Agreement executed on May 19, 2011, by and between SPP RE and URE. The details of the findings and the basis for the penalty are set forth in the Disposition Documents. This NOP filing contains the basis for approval of the Settlement Agreement by the NERC Board of Trustees Compliance Committee (NERC BOTCC). In accordance with Section 39.7 of the Commission’s regulations, 18 C.F.R. § 39.7, NERC provides the following summary table identifying each violation of a Reliability Standard resolved by the Settlement Agreement, as discussed in greater detail below.

<table>
<thead>
<tr>
<th>NOC ID</th>
<th>NERC Violation ID</th>
<th>Reliability Std.</th>
<th>Req. (R)</th>
<th>VRF</th>
<th>Duration</th>
<th>Total Penalty ($)</th>
</tr>
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<tr>
<td>NOC-572</td>
<td>SPP200900168</td>
<td>PRC-005-1</td>
<td>2.1</td>
<td>High³</td>
<td>12/1/08-8/25/10</td>
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<tr>
<td></td>
<td>SPP200900169</td>
<td>FAC-008-1</td>
<td>1</td>
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<td>FAC-009-1</td>
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<td>SPP200900178</td>
<td>CIP-003-1</td>
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<td></td>
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<td>CIP-004-1</td>
<td>4/4.2</td>
<td>Medium⁶</td>
<td>7/1/08-11/3/09</td>
<td></td>
</tr>
</tbody>
</table>

³ PRC-005-1 R2 has a “Lower” Violation Risk Factor (VRF); R2.1 and R2.2 each have a “High” VRF. During a final review of the standards subsequent to the March 23, 2007 filing of the Version 1 VRFs, NERC identified that some standards requirements were missing VRFs; one of these include PRC-005-1 R2.1. On May 4, 2007, NERC assigned PRC-005 R2.1 a “High” VRF. In the Commission’s June 26, 2007 Order on Violation Risk Factors, the Commission approved the PRC-005-1 R2.1 “High” VRF as filed. Therefore, the “High” VRF was in effect from June 26, 2007. In the context of this case, SPP RE determined that the violation related to R2.1, and therefore a “High” VRF is appropriate.

⁴ FAC-008-1 R1, R1.3 and R1.3.5 each have a “Lower” VRF; R1.1, R1.2, R1.2.1, R1.2.2, R1.3.1-4 each have a “Medium” VRF. When NERC filed VRFs it originally assigned FAC-008-1 R1.1, R1.2, R1.2.1 and R1.2.2 “Lower” VRFs. The Commission approved the VRFs as filed; however, it directed NERC to submit modifications. NERC submitted the modified “Medium” VRFs and on February 6, 2008, the Commission approved the modified “Medium” VRFs. Therefore, the “Lower” VRFs for FAC-008-1 R1.1, R1.2, R1.2.1 and R1.2.2 were in effect from June 18, 2007 until February 6, 2008 when the “Medium” VRFs became effective.

⁵ CIP-003-1 R1 has a “Medium” VRF; R1.1, R1.2 and R1.3 each have a “Lower” VRF. When NERC filed VRFs it originally assigned CIP-003-1 R1 a “Lower” VRF. The Commission approved the VRF as filed; however, it directed NERC to submit modifications. NERC submitted the modified “Medium” VRF and on January 27, 2009, the Commission approved the modified “Medium” VRF. Therefore, the “Lower” VRF for CIP-003-1 R1 was in effect from June 18, 2007 until January 27, 2009, when the “Medium” VRF became effective.

⁶ CIP-004-1 R4 and R4.1 each have a “Lower” VRF; R4.2 has a “Medium” VRF. When NERC filed VRFs, it originally assigned CIP-004-1 R4.2 a Lower VRF. The Commission approved the VRF as filed; however, it directed NERC to submit modifications. NERC submitted the modified “Medium” VRF and on January 27, 2009, the Commission approved the modified “Medium” VRF. Therefore, the “Lower” VRF for CIP-004-1 R4.2 was in effect from June 18, 2007 until January 27, 2009 when the “Medium” VRF became effective.
The text of the Reliability Standards at issue and further information on the subject violations are set forth in the Disposition Documents.

**PRC-005-1 R2.1 - OVERVIEW**
URE self-reported this violation. SPP RE determined that URE did not perform its two-month battery inspections for 100% of its station batteries. This failure to inspect the station batteries within the required interval affected 1.7% of URE’s total Protection System\(^9\) devices.

**FAC-008-1 R1 - OVERVIEW**
This violation was discovered during a Compliance Audit. SPP RE determined that URE did not have a documented Facility Ratings Methodology prior to 2009, and URE’s Facility Ratings Methodology did not address relay protective devices, current and potential transformers, and terminal equipment.

**FAC-009-1 R1 - OVERVIEW**
This violation was discovered during a Compliance Audit. SPP RE determined that URE did not establish ratings for its terminal equipment in accordance with its Transmission Facility Ratings.

**CIP-003-1 R1 - OVERVIEW**
This violation was discovered during a Spot-Check. SPP RE determined that URE did not have a Cyber Security Policy which addressed all the requirements of CIP-002 through CIP-009. URE also did not make all of the Cyber Security Policy documents available to all personnel with authorized electronic or authorized unescorted physical access to Critical Cyber Assets. Finally, URE’s Cyber Security Policy was not approved in the method required by the Standard.

**CIP-004-1 R4.2 - OVERVIEW**
This violation was discovered during the Spot Check. SPP RE determined that URE failed to revoke the Critical Cyber Asset access of forty-four (44) personnel within seven calendar days following their termination of employment.

**CIP-007-1 R1 - OVERVIEW**
This violation was discovered during the Spot Check. SPP RE determined that URE did not perform specific testing of security controls until after implementation of at least one update on the production system.

\(^{7}\) CIP-007-1 R1 and R1.1 each have a “Medium” VRF; R1.2 and R1.3 each have a “Lower” VRF.

\(^{8}\) BAL-003-0 was enforceable from June 18, 2007 through August 27, 2008. BAL-003-0a was approved by the Commission and became enforceable on August 28, 2008. BAL-003-0.1b is the current enforceable Standard as of May 13, 2009. The subsequent interpretations provide clarity regarding the responsibilities of a registered entity and do not change the meaning or language of the original NERC Reliability Standard and its requirements. For consistency in this filing, the current version of the Standard, BAL-003-0.1b, is used throughout.

\(^{9}\) *The NERC Glossary of Terms Used in Reliability Standards* defines Protection System as “Protective relays, associated communication systems, voltage and current sensing devices, station batteries and DC control circuitry.”
This violation was discovered during a Spot-Check. SPP RE determined that URE did not perform the calculations to determine the frequency response to its system using either of the two calculation methods outlined in R2.1 or R2.2.

**Statement Describing the Assessed Penalty, Sanction or Enforcement Action Imposed**

**Basis for Determination**

Taking into consideration the Commission’s direction in Order No. 693, the NERC Sanction Guidelines, the Commission’s July 3, 2008, October 26, 2009 and August 27, 2010 Guidance Orders, the NERC BOTCC reviewed the Settlement Agreement and supporting documentation on March 11, 2011. The NERC BOTCC approved the Settlement Agreement, including SPP RE’s assessment of a seventeen thousand eight hundred sixty dollar ($17,860) financial penalty against URE and other actions to facilitate future compliance required under the terms and conditions of the Settlement Agreement. In approving the Settlement Agreement, the NERC BOTCC reviewed the applicable requirements of the Commission-approved Reliability Standards and the underlying facts and circumstances of the violations at issue.

In reaching this determination, the NERC BOTCC considered the following factors:

1. the violations constituted URE’s first occurrence of violations of the subject NERC Reliability Standards;
2. URE self-reported the violation of PRC-005-1 R2.1;
3. SPP RE reported that URE was cooperative throughout the compliance enforcement process;
4. URE had a compliance program at the time of the violation which SPP RE considered a mitigating factor, as discussed in the Disposition Documents;
5. there was no evidence of any attempt to conceal a violation nor evidence of intent to do so;
6. SPP RE determined that the violations posed a minimal risk and did not pose a serious or substantial risk to the reliability of the bulk power system (BPS), as discussed in the Disposition Documents; and
7. SPP RE reported that there were no other mitigating or aggravating factors or extenuating circumstances that would affect the assessed penalty.

For the foregoing reasons, the NERC BOTCC approved the Settlement Agreement and believes that the assessed penalty of seventeen thousand eight hundred sixty dollars ($17,860) is

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10 See 18 C.F.R. § 39.7(d)(4).

appropriate for the violations and circumstances at issue, and is consistent with NERC’s goal to promote and ensure reliability of the BPS.

Pursuant to 18 C.F.R. § 39.7(e), the penalty will be effective upon expiration of the 30 day period following the filing of this NOP with FERC, or, if FERC decides to review the penalty, upon final determination by FERC.

**Request for Confidential Treatment**

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